

Message Text

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TAGS: ELTN, VE
SUBJECT: VENEZUELA'S AUTOMOTIVE INDUSTRY: CHRYSLER CORP. SPEAKS OUT

REFERENCE: CARACAS 12812

1. SUMMARY: CHRYSLER HAS NOW FOLLOWED GM (REFTEL) IN A HIGH-LEVEL EXPRESSION OF CONCERN TO THE GOV ABOUT THE FUTURE OF THEIR LOCAL SUBSIDIARY. IN A MEETING WITH MINISTER OF DEVELOPMENT CASAL AND MINISTER FOR BASIC INDUSTRY LAURIA, CHRYSLER REPS INDICATED THAT UNLESS THE GOV PROVIDES CHRYSLER DE VENEZUELA (CDV) PRICING RELIEF, SUBSTANTIAL CUTBACKS IN PRODUCTION OR A TOTAL CDV SHUTDOWN MIGHT BE NECESSARY TO AVOID FURTHER LOSSES. THE GOV DOES NOT APPEAR TO BE PARTICULARLY CONCERNED ABOUT THE PROSPECT OF INDUSTRY DROPOUTS, BUT WE EXPECT INCREASING TENSION AS SOME COMPANIES REDUCE PRODUCTION TO AVOID LOSSES. END SUMMARY.

2. A FIVE-MAN DELEGATION OF CHRYSLER CORP. AND CHRYSLER DE VENEZUELA (DDV) MANAGEMENT HEADED BY E.W. DOYLE, V.P.-FAR EAST, AFRICA, AND SOUTH AMERICA, CALLED ON AMBASSADOR DECEMBER 8 TO BRIEF HIM ON THE STATUS OF
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THEIR CURRENT OPERATIONS, AND TO DISCUSS POSSIBLE MEANS OF SEEKING RELIEF FROM THE DIFFICULT ECONOMIC SITUATION WITH WHICH THEIR LOCAL ASSEMBLY OPERATION IS FACED.

3. DOYLE SAID CDV IS CURRENTLY THE BIGGEST ASSEMBLER OF CARS AND TRUCKS IN VENEZUELA, WITH A MODERN PLANT

IN VALENCIA. IN SPITE OF CDV'S RELATIVE EFFICIENCY, DOYLE PROJECTS 1976 LOSSES AT \$16.3 MILLION, FOLLOWING A 1975 LOSS OF \$9 MILLION, DUE ENTIRELY TO THE GOV'S UNREALISTIC PRICE CONTROL POLICY. DOYLE STATED THAT CHRYSLER'S OVERALL PERFORMANCE HAS FORCED HIS MANAGEMENT TO CAST A MORE CRITICAL EYE ON MONEY-LOSING OPERATIONS AND CONSIDER CLOSING THEM DOWN, ESPECIALLY WHERE PROBLEMS APPEAR TO BE ENDEMIC. DOYLE SAID THE PURPOSE OF HIS VISIT WAS TO INFORM THE GOV THAT CHRYSLER WILL BE FORCED TO MAKE SUCH A BASIC DECISION CONCERNING ITS FUTURE IN VENEZUELA UNLESS THE CURRENT IMPASSE OVER PRICE CONTROLS IS RESOLVED IN THE NEXT FEW MONTHS.

4. DOYLE REPORTED THAT CDV IS NOW RECEIVING SUPPORT ON THE QUESTION OF PRICE RELIEF FROM LOCAL COMPONENT SUPPLIERS. CHRYSLER ESTIMATES THAT A 21 PERCENT PRICE INCREASE ON THE 60 PERCENT OF THEIR AUTO PRODUCTION THAT IS PRICE-CONTROLLED WOULD BE NECESSARY TO BRING THEIR OPERATIONS BACK TO THE BREAK-EVEN POINT. THE GOV HAS ALLOWED AN EFFECTIVE PRICE INCREASE OF ONLY 5 PERCENT SINCE 1969. A RECENT 10 PERCENT INCREASE WAS OFFSET BY THE GOV'S INSISTENCE ON AN INCREASE IN THE PROPORTION OF PRODUCTION OF PRICE-CONTROLLED MODELS.

5. DOYLE CONSIDERS THE GOV'S PROFESSED INTENT TO HAVE ALL ASSEMBLERS OF SIMILAR AUTO MODELS USE A COMMON ENGINE AND DRIVE TRAIN TO BE UNWORKABLE AND DOUBTS THAT VENEZUELAN AUTO ASSEMBLERS WILL INVEST THE NECESSARY CAPITAL (INDUSTRY WIDE, MORE THAN \$500 MILLION) TO BUILD ENGINE AND TRANSMISSION PLANTS, ON THE BASIS LIMITED OFFICIAL USE

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OF EXPECTATIONS OF BEING ABLE TO SELL THESE COMPONENTS TO OTHER ASSEMBLERS.

6. AFTER CALLING ON THE AMBASSADOR, DOYLE MET JOINTLY WITH MINISTERS CASAL AND LAURIA, AND INFORMED THEM THAT UNLESS PRICING RELIEF WERE PROVIDED A TOTAL SHUTDOWN MIGHT BE NECESSARY TO AVOID FURTHER LOSSES. ONE OF THE GOV MINISTERS ASKED WHETHER CHRYSLER'S "NOTICE" TO THE GOVERNMENT REPRESENTED AN ULTIMATUM. DOYLE REPORTEDLY ANSWERED THAT THIS WAS NOT THE ONLY ALTERNATIVE THAT CHRYSLER WAS CONSIDERING, AND THAT A SECOND, LESS DRASTIC POSSIBILITY WAS A SUBSTANTIAL CUTBACK IN CDV'S OPERATIONS. A CDV SPOKESMAN TOLD EMBOFF THAT IN FACT CDV HAS CANCELLED ALL INBOUND COMPONENTS SHIPMENTS FOR THE FIRST QUARTER OF 1977. STOCKS ON HAND WILL ALLOW CDV TO CONTINUE TO OPERATE AT A REDUCED PRODUCTION LEVEL THROUGH APRIL 1977. THE SPOKESMAN ADDED THAT BY MID-FEBRUARY, CDV WILL HAVE

COMPLETED THEIR EVALUATION OF PROSPECTS FOR
CONTINUED OPERATIONS.

7. IN THEIR MINISTERIAL MEETING, THE CHRYSLER REPS
WERE TANTALIZED BY A QUESTION AS TO WHETHER CDV WOULD
BE WILLING TO BUY FORD MOTOR CO.'S LOCAL ASSEMBLY
PLANT IF THEY, CHRYSLER, WERE CHOSEN TO BUILD THE
EIGHT-CYLINDER ENGINE PLANT ENVISIONED IN THE GOV'S
AUTO INDUSTRY VERTICAL INTEGRATION SCHEME. CHRYSLER
LATER LEARNED THAT THE SAME PROPOSITION HAD BEEN PUT
BEFORE FORD. BOTH FORD AND CHRYSLER REPORTEDLY HAVE
REMAINED NON-COMMITAL ON THIS POINT.

8. COMMENT: REFTEL REPORTS RECENT VISIT OF GM'S
PRESIDENT ESTES, WHOSE VENEZUELAN COMPANY FACES SIMILAR
PROBLEMS, DERIVING FROM GOV INDUSTRY CONTROLS.
CONVERSATIONS WITH DOYLE, AND PREVIOUSLY WITH GM'S
ESTES, INDICATE THAT FORD MOTOR CO. THUS FAR HAS
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CHOSEN NOT TO SPEAK OUT ON THE PROBLEMS WHICH FORD'S
LOCAL SUBSIDIARY IS LIKELY TO HAVE IN COMMON WITH CDV
AND GM OF VENEZUELA. IT THEREFORE APPEARS UNLIKELY
THAT THE "BIG THREE" WILL BE ABLE TO ESTABLISH A
UNITED FRONT ON THE PRICE ISSUE FOR MORE EFFECTIVE
LEVERAGE AGAINST THE GOV.

9. THE EMBASSY HAS THE IMPRESSION THAT THE GOV IS
NOT PARTICULARLY CONCERNED ABOUT THE IMPLIED INTEN-
TION OF CHRYSLER AND GM TO CLOSE DOWN THEIR ASSEMBLY
OPERATIONS IN VENEZUELA. IN FACT, THE PRIMARY PURPOSE
OF THE GOV'S AUTOMOBILE INDUSTRY POLICY ANNOUNCED IN
1975 IS "LIMITATION OF THE NUMBER OF MAKES AND MODELS
WHICH ARE ACTUALLY PRODUCED, IN ORDER TO ACHIEVE THE
MAXIMUM BENEFIT FROM INSTALLED CAPACITY." IN GOV EYES
A REDUCTION IN THE NUMBER OF COMPANIES CURRENTLY OPERAT-
ING IN VENEZUELA MIGHT THEREFORE BE A RATIONAL DEVELOP-
MENT.

10. NEVERTHELESS, PRODUCTION CUTBACKS BY THE INDUSTRY
WILL PROBABLY LEAD TO INCREASING TENSION BETWEEN SOME
COMPANIES AND THE GOV AND COULD PRECIPITATE A CONFRONTA-
TION. A GM OFFICIAL TOLD AN EMBASSY OFFICER THAT GM
HAS ALREADY CUT BACK ITS PRODUCTION SUBSTANTIALLY IN
ORDER TO AVOID LOSING MONEY IN 1976. HE ANTICIPATED THAT
PRODUCTION FOR THE AUTOMOBILE INDUSTRY AS A WHOLE IN
1976 WILL BE APPROXIMATELY THE SAME AS IN 1975, DESPITE
INCREASING DEMAND.
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